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Condemnations of Private Property for Public Use

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For use in preparing
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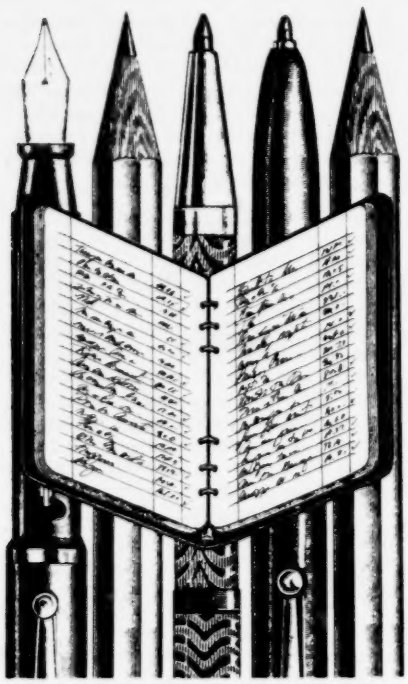

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Introduction

This publication discusses the condemnation of property, the sale or exchange of property under threat or imminence of condemnation, and how to figure and treat a gain or loss from the condemnation or the sale. A condemnation of property and sale or exchange under threat or imminence of condemnation are involuntary conversions.

Condemnation

Condemnation is the process by which private property is legally taken for public use by the federal government, a state government, or a political subdivision in exchange for a reasonable amount of money or property.

Example 1. The state highway department, authorized to acquire land for a future interstate highway, told you that it wishes to acquire your property. You went to court to keep your property but the court decided in favor of the highway department. The state took your property and paid you an amount fixed by the court. This is a condemnation of private property for public use.

Example 2. You own unimproved farmland. You did not pay your real estate taxes on this property. Your local taxing authority put a lien for delinquent taxes on this property. The authority later sold this property to satisfy this lien. This is not a condemnation of private property for public use.

Threat or imminence of condemnation. You are under threat or imminence of condemnation if a representative of a governmental body (or a public official) authorized to acquire property for public use tells you that the body (or official) has decided to acquire your property, and from this you have reasonable grounds to believe that if you do not sell voluntarily, your property will be condemned.

You are under threat or imminence of condemnation if you sell your property to a designated private nonprofit association that is cooperating in the acquisition of your property for public use for resale to the governmental body that formally told you of its decision to acquire your property by condemnation if necessary. You are also under threat or imminence of condemnation if you learn of a decision to acquire your property for public use through a report in a newspaper or other news medium, and you get confirmation of the report from a representative of the governmental body or public official involved. The confirmation must give you reasonable grounds to believe that they will take necessary steps to condemn if you do not sell voluntarily. If you relied on oral statements made by a government representative or public official, the Internal Revenue Service may ask you to get written confirmation of the statements.

Example 1. Your property lies along the proposed route of a new highway. You are notified by the state highway authority that it intends to acquire your property by negotiation or condemnation. Your property is under threat or imminence of condemnation when you receive the notice.

Example 2. The city council wants land to build a city hall. Your property is among the sites the council considers suitable for the building. You learn that the city council is negotiating with each landowner to buy land at the lowest price. A council member tells you that if none of the landowners sells the land voluntarily for a fair price, the council will probably acquire a site by condemnation. Your property is not under threat or imminence of condemnation because you have no evidence that your property will be chosen for the site.

Example 3. A public utility company that does not have the authority to condemn property, but can get that authority, wants to acquire your property. You would have reasonable grounds to believe that condemnation will occur if you do not sell voluntarily if, during negotiations, a representative tells you of the imminence of condemnation and also reveals the identity of the condemning authority.

Example 4. You own a building that is in poor condition. You receive a health department notice that your building is unfit for human use and will be condemned if necessary repairs are not made. You are not under threat or imminence of condemnation because the notice does not relate to a condemnation of private property for public use.

Property voluntarily sold. A voluntary sale of your property may be treated as an involuntary conversion if you owned property that was condemned and that had a substantial economic relationship to the property you sell. You had a substantial economic relationship if together the properties constituted one economic unit. You must show the unavailability of suitable nearby property of a like kind to the condemned property that you can use to continue business operations as before. You also must spend the entire amount received from your voluntary sale to acquire the like kind property.

Your voluntary sale of your property that has a very close economic relationship to condemned property may not be treated as an involuntary conversion if you do not own both properties.

Example. Green Corporation rented its manufacturing plant from your father and an adjacent warehouse from you. Your father owns 51% of Green's stock and the remainder is owned equally by you and your brother. Last year your father sold his building under threat of condemnation and you sold your warehouse because the plant was relocated. Your voluntary sale is not an involuntary conversion because you do not own the condemned property.

Easements. If you grant an easement on your property under condemnation or threat of condemnation, you are considered to have

disposed of a property interest if you give up any beneficial use of the property but keep the legal title. If the easement is over part of the property, you must allocate a part of the basis of the entire property to that part. Although you figure gain or loss on the easement in the same way as a sale of property the gain or loss is treated like a gain or loss from a condemnation. See *Postponement of Gain*, later.

Example. The Department of Agriculture is authorized to acquire any lands or interest in them for the protection of the historic, cultural, and scenic values of an area. It informed you in writing that condemnation proceedings will be started unless you agree to sell voluntarily a scenic easement over your property. If you give up any beneficial use of the property by the sale, you have disposed of a real property interest under the threat or imminence of condemnation.

A condemnation award is the money you are paid or the value of other property you receive for your condemned property. The award is also the amount you are paid for the sale of your property under threat or imminence of condemnation.

Deposits made by the condemning authority with the clerk of the court for disputed awards are considered received by you in the year you receive the notice of deposit, if you have an unrestricted right to the deposit.

Amounts withheld from the award to pay your debts are considered paid to you. Amounts paid directly to the holder of a mortgage or other lien against your property are part of your award even though the debt attaches to the property and is not your personal liability.

Example. The state condemned your property for public use and the award was set at $200,000. The state paid you only $148,000 because it paid $50,000 to the holder of the mortgage on your property and $2,000 accrued real estate taxes on it. You are considered to have received the entire $200,000 as a condemnation award.

Growing crops. If you have a crop growing on your land that is condemned for public use, you do not have to allocate any part of the award to the crop even if a separate provision is made for it in the award. The entire amount is considered received for the land. If the condemning authority allows you to harvest the crop, any amounts you receive from the sale or other disposition of the crop will be ordinary income.

Example 1. The state highway authority acquired a strip of your land, on which you planted wheat, under threat of condemnation to build a new highway. The price the authority paid you for the land included an amount to compensate you for the growing crop that you could not harvest. You may treat the entire amount as a condemnation award.

Example 2. The state highway authority in the previous example did not compensate you for the growing crop, nor did it start highway construction immediately after acquiring your land. It allowed you to harvest your crop. The proceeds you received from the sale of that crop is ordinary income and you may not add it to the condemnation award you received.

A net condemnation award is the total award you received or are considered to have received for the condemned property less your expenses of securing the award. If only a part of your property was condemned, you must also reduce the award by the amount that is from a special assessment levied against the part of the property retained and that has not been used to reduce the severance damages. See *Special assessment withheld from award*, discussed later.

Interest on award. If the condemning authority pays you interest for its delay in payment of your award, it is not part of the condemnation award. You should report the interest as ordinary income.

Relocation and replacement housing payments received under the Housing and Community Development Act of 1974 or previous Acts by persons displaced from their homes, businesses, or farms as a result of federal or federally-assisted programs are not part of the condemnation award. Do not include them in your income. The replacement housing payments are added to the cost of the displaced person's newly acquired property.

Severance damages are compensation paid to you because part of your property is condemned and the value of the retained part is decreased because of the condemnation.

For example, you may receive severance damages because it is difficult to reach the property you kept because of flooding or erosion. Severance damages may also be given to you if you must replace fences, dig new wells or ditches, or plant trees to restore the property that you kept to the same use it had before the damage occurred.

The contracting parties should agree on the amount of the severance damages and put that amount in writing. If this is not done all the proceeds from the condemning authority are considered awarded for your condemned property.

Example. You transferred part of your property to the state under threat of condemnation. To figure the total award for the part condemned, you and the condemning authority must agree to severance damages for the part you kept. The contract signed by you and the authority showed only the total award, and did not specify a fixed sum for severance damages. However, when the condemning authority paid you the award, it gave you closing papers that clearly showed that part of the award was for severance damages. You may treat this part as severance damages.

You may not make a completely new allocation of the damages after the transaction is completed. However, you may show the actual apportionment to the severance damages contemplated by the parties. The severance damages part of the award is determined from all facts and circumstances. You can show severance damages even if the award makes no allocation.

Treatment of severance damages. You must first reduce your severance damages by the expenses you incurred in securing them. You then reduce them by any special assessment levied against the part of the property retained and withheld from the award by the condemning authority. The balance is your net severance damages. You then reduce the basis of your retained property by your net severance damages. If the severance damages are based on damages to a specific part of your retained property, you may only reduce the basis for that part by the net severance damages. If your net severance damages are more than the basis of your retained property you have a gain. You may choose to postpone the gain by purchasing replacement property. See the later discussion *Postponement of Gain*.

You may choose to treat the cost of restoring your retained property to its former use as replacement property. You can also make this choice if you spend the severance damages, together with other money received for the property condemned, to acquire adjacent property that will allow you to continue your business. If suitable nearby property is not available and you are forced to sell the retained property and relocate in order to continue your business, see *Property voluntarily sold*, discussed earlier.

Consequential damages and similar awards are paid to you for damages from improvements made to your property by a state, city, or other public body that did not actually take your property. These damages are awarded for the same reasons as severance damages, discussed earlier, and are treated in the same way as severance damages.

Expenses of securing a condemnation award and severance damages. Expenses of securing a condemnation award, such as legal, engineering, and appraisal fees, are subtracted from the amount of the total award. Expenses of securing severance damages should be subtracted from the severance damages paid to you. If part of your condemnation award is for severance damages, you should allocate a specific part of your total expenses to each part of the award. If you cannot make this allocation, you must make a proportionate allocation.

Example 1. You receive a condemnation award. One-fourth of it was stipulated as severance damages. You incurred legal expenses in connection with the entire condemnation proceeding. You must allocate one-fourth of your legal expenses to the severance damages and the other three-fourths to the award for the property condemned.

Example 2. If, in the previous example, your legal expenses were incurred solely for the severance damages, you must use all of your expenses to reduce the severance damages. You cannot use these expenses to reduce the award for the property condemned.

Special assessment withheld from award. When part of your property is condemned you must reduce the condemnation award by the expenses of securing it and by any amount withheld because of a special assessment levied against the remaining property. This assessment may be levied if the retained part of your property is benefited by the improvement resulting from the condemnation. Examples are widening of a street or installation of a sewer.

The assessment must be withheld from the award. The award cannot be reduced by any assessment levied after the award is made, even if the assessment is levied in the same year the award is made.

Example. To widen the street in front of your home, the city acquired 25 feet of your land. You were awarded $5,000 for this and spent $300 to get the award. Before paying the award the city levied a special assessment of $700 for the street improvement against your remaining property. The city then paid you only $4,300. Your net proceeds are $4,000 ($5,000 total award, less $300 expenses in obtaining the award and $700 for the special assessment withheld). If the $700 special assessment was not withheld from the award, and you were paid $5,000, your net proceeds would be $4,700 ($5,000 less $300). The net proceeds are not changed even if you later paid the assessment from the amount you received.

If severance damages are included in the award, the amount of the special assessment withheld must first reduce these damages. The balance is used to reduce the amount of the award for the property condemned.

Example. Assume that in the previous example you were awarded $4,000 for the property condemned and $1,000 for severance damages. Your expenses of $300 were only for securing severance damages. A special assessment of $800 was withheld from the award. The $1,000 severance damages are reduced to zero by first subtracting the $300 expenses and then $700 of the special assessment. Your award for the property condemned, $4,000, is reduced by the $100 balance of the special assessment, leaving a net condemnation award of $3,900.

Gain or Loss

If your condemnation award is more than the adjusted basis of the property condemned, you have a gain. You may postpone reporting the gain. If your award is less than your adjusted basis, you have a loss. If your loss is from property you held for personal use, you cannot deduct it. You must report any deductible loss in the tax year it happened.

Basis

You must know the basis of your property to figure your gain or loss from a condemnation.

Your basis in the property you buy is its cost. The cost usually is the amount you pay for it in cash or in other property. If you buy property, and you become liable for an existing mortgage on the property, your basis is the amount you pay for the property, plus the unpaid mortgage you assume.

If you acquire property in some way other than by purchase, such as by gift or inheritance, you must use a basis other than cost.

For more information on basis, see Publication 551, *Basis of Assets.*

Adjusted basis. Before you can figure your gain or loss from a condemnation, you must make certain adjustments to increase or decrease the basis of your condemned property. The result of these adjustments to your basis is your adjusted basis for your condemned property.

Increase. You increase the basis of your property by all items charged to a capital account (unless you can and do choose to deduct them currently). This includes the cost of any improvements having a useful life of more than one year. Some of the other items added to the basis of your property are the purchase commissions; legal fees, such as the cost of defending and perfecting title (including title insurance); recording fees; and zoning costs.

Decrease. You decrease the basis of your property by items that represent a return of capital. These include such things as recognized losses on involuntary conversions, casualty losses, and deductions previously allowed (or allowable) for amortization, depreciation, obsolesence, and depletion. If you omit from income the amount of a cancelled debt on property used in your trade or business, you must also agree to decrease the basis of your property.

The most common decrease to your basis is ***depreciation.*** You decrease the basis of your property by the amount of depreciation you claimed each year on your return, or could have claimed, whichever is more. This means that if you took less than what you could have, you still would decrease the basis by the amount that you could have claimed. Usually, you figure the amount you could have claimed by using the straight line method of depreciation. If you used some other method such as declining balance or sum of the year digits, you must decrease the basis by an amount that is consistent with the method used.

If you claimed more depreciation than you should have, you must decrease your basis by the amount you should have claimed, plus the part of the excess claimed that actually resulted in a decrease in your tax liability for any year. This rule applies to all years ending after 1951; it also applies to years after 1931 and before 1952 provided you filed an election to that effect before January 1, 1955. Otherwise, if you took too much depreciation, you must decrease the basis by the full amount you claimed.

Allocation of basis. If you acquire land and buildings for use in a business or for the production of income, and you pay a lump-sum price, you should allocate the cost or other basis of the whole property among land and buildings. Allocations of basis are usually made in a proportion that the fair market value of each bears to the total fair market value of both. If you are not certain of the fair market value of land or buildings, you may allocate the cost among them based on their assessed values. The allocation also applies to assets held in groups.

Partial condemnation of property. If part of your property was condemned, you must figure the basis of the part condemned and of the part retained. If the part condemned is on unimproved land bought at a price per acre or foot, or on improved real estate bought under a contract that priced land and improvements separately, you should not have any difficulty in figuring the basis of each. If the part condemned is on improved real estate (such as residential property) bought for a lump sum, you may have to use the assessed values to figure the basis of each part.

Example 1. Last year you bought 10 acres of unimproved real estate for $1,000 an acre. This year the state highway authority condemned a 4½ acre strip of land through this property. Your basis for the part of land condemned is $4,500 (4½ × $1,000).

Example 2. Your personal residence is on a 10,000 square foot lot. You bought your residence and the lot for one price under a contract with no separate price listed for the lot or your residence. When the city condemned a 400-square-foot strip of your frontage to widen a street, your original cost and the cost of subsequent improvements of your entire property was $20,000. Because you do not know the adjusted basis for the property condemned, and no other information is available, you may use assessed values to figure the basis of the property.

Your property taxes are based on an assessed value of $2,000 for land and $14,000 for improvements for a total of $16,000 for the entire property. You may figure your basis for the land by multiplying $20,000 (your basis for the entire property) by the fraction $2,000 (assessed value of land) over $16,000 (assessed value for entire property). Your basis for the 10,000 square feet of land is $2,500 (2,000/16,000 × $20,000). Your basis for the part of the land condemned is $100 (400 square feet condemned over 10,000 total square feet, multiplied by $2,500, your basis for all the land). The property you retain after the condemnation (9,600 square feet of land and the improvements) has a basis of $19,900, which may be reduced for severance damages received (if stipulated) or increased for a special assessment levied, if not withheld from the award.

Computation of Gain or Loss

If your property was condemned, you must figure your gain or loss by comparing the adjusted basis of your condemned property with the award you received less the expenses of obtaining it.

Example. You owned property with an adjusted basis of $25,000. The state highway authority acquired it under threat of condemnation. You received $26,000 for the property and spent $200 to get the award. You have a realized gain of $800 figured as follows:

Condemnation award	$26,000
Less: Expenses of obtaining award	200
Net condemnation award	$25,800
Less: Adjusted basis of property	25,000
Gain realized on condemnation	$ 800

Part business or part rental. If your property was condemned and part of it was used as your residence and another part was used as business or rental property, you must treat each part as a separate property and figure your gain or loss separately for each part.

Some examples of this type of property are a farm or ranch you operate and live on, a building in which you live and operate a grocery, and a building in which you live on the first floor and rent out the second floor.

Example. You owned a building that you sold to the state highway authority for $24,000 under threat of condemnation. You rented half of the building and lived in the other half. You paid $25,000 for the building and spent an additional $1,000 for a new roof. You claimed allowable depreciation of $4,600 on the rental half of the property. You spent $200 in legal expenses to make the sale. You figure gain or loss as follows:

	Residential part	Business part
Amount of award received	$12,000	$12,000
Less: Legal expenses, $200	100	100
Net condemnation award	$11,900	$11,900
Less:		
Adjusted basis of residential part:		
1/2 of original cost, $25,000	$12,500	
1/2 of cost of roof, $1,000	500	
Adjusted basis, residential part	$13,000	
Adjusted basis of business part:		
1/2 of original cost, $25,000		$12,500
1/2 of cost of roof, $1,000		500
Total		$13,000
Less: Depreciation		4,600
Adjusted basis, business part		$ 8,400
Loss on residential property	$ 1,100	
Gain on business property		$ 3,500

Partial condemnation of property. If you dispose of part of your property by condemnation, or under threat or imminence of condemnation, in figuring your gain or loss you must consider any special assessment levied against the retained part of your property and withheld from your condemnation award, and any severance damages that are stipulated as part of the award.

The following examples illustrate how severance damages and special assessments affect your gain or loss and are based on the following facts.

You bought 640 acres of farmland for $128,000 ($200 an acre). The land has a grove of trees and a natural spring that your livestock can use for shade and water. There were no improvements on the land when you bought it. You later built storage sheds at a cost of $3,000 on the land.

The state highway authority condemned a 10-acre strip of land through your property on which you built the sheds. The condemned strip keeps your livestock from using the grove of trees or spring on the other side of your property.

You took $400 of depreciation on the sheds before the condemnation. You also had a $250 casualty loss deduction on your tax return for a prior year in which one of the sheds was damaged by fire. Your total condemnation award was $12,000, and you spent $600 for legal and appraisal fees to get that award.

Example 1—No special assessment or severance damages. No special assessment was levied against your retained property and you did not receive any severance damages. Your gain from the condemnation is $7,050, figured as follows:

Total condemnation award		$12,000
Less: Legal and appraisal fees		600
Net condemnation award		$11,400
Less:		
10 acres of land @ $200	$2,000	
Cost of storage sheds	3,000	
	$5,000	
Less: $400 depreciation and $250 casualty loss deductions	650	
Adjusted basis of property condemned		4,350
Gain realized on condemnation		$ 7,050

Example 2—Special assessment but no severance damages. Before paying you the award, the state levied an assessment of $1,600 against your retained property for benefits received from the public improvement. The state withheld the assessment from your award; therefore, you received only $10,400. You realized a gain of $5,450, figured as follows:

Total condemnation award		$12,000
Less: Legal and appraisal fees		600
Award less expenses		$11,400
Less: Special assessment		1,600
Net condemnation award		$ 9,800
Less:		
10 acres of land @ $200	$2,000	
Cost of storage sheds	3,000	
	$5,000	
Less: $400 depreciation and $250 casualty loss deductions	650	
Adjusted basis of property condemned		4,350
Gain realized on condemnation		$ 5,450

Example 3—Severance damages but no special assessment. Of your $12,000 condemnation award, $2,000 was stipulated as severance damages and $10,000 for the condemned property. No special assessment was levied against your retained property. Your $600 expense of obtaining the award applies to the entire $12,000; therefore, you must apply it proportionately to reduce the severance damages and the condemnation award. You have a realized gain of $5,150, figured as follows:

	Severance damages	Condemnation proceeds
Severance damages	$ 2,000	
Condemnation award		$10,000
Less: Legal and appraisal fees		
$600 × ($2,000/$12,000)	100	
$600 × ($10,000/$12,000)		500
Net severance damages	$ 1,900	
Basis of retained property (630 acres @ $200)	126,000	
New basis of retained property	$124,100	
Net condemnation award		$ 9,500
Less:		
10 acres of land @ $200	$ 2,000	
Cost of storage sheds	3,000	
	$ 5,000	
Less: $400 depreciation and $250 casualty loss deductions	650	
Adjusted basis of property condemned		4,350
Gain realized on condemnation		$ 5,150

Example 4—Severance damages and special assessment. Of your $12,000 condemnation award, $2,000 was stipulated as severance damages, and $10,000 for the condemned property. The state levied a special assessment of $1,600 against your retained property. The state withheld the $1,600 from the award it paid to you. Your $600 expense of obtaining the award applies to the entire $12,000; therefore, you must apply it proportionately to reduce the severance damages and the condemnation award. Your realized gain is $5,150, figured as follows:

	Severance damage	Condemnation proceeds
Severance damages	$ 2,000	
Condemnation award		$10,000
Less: Legal and appraisal fees		
$600 × ($2,000/$12,000)	100	
$600 × ($10,000/$12,000)		500
Severance damages less expenses	$ 1,900	
Less: Special assessment (offset against severance damages)	1,600	
Net severance damages	$ 300	
Basis of retained property (630 acres @ $200)	126,000	
New basis of retained property	$125,700	
Net condemnation award		$ 9,500
Less:		
10 acres of land @ $200	$ 2,000	
Cost of storage sheds	3,000	
	$ 5,000	
Less: $400 depreciation and $250 casualty loss deductions	650	
Adjusted basis of property condemned		4,350
Gain realized on condemnation		$ 5,150

Example 5—Special assessment exceeds severance damages. Of your $12,000 condemnation award, $2,000 was stipulated as severance damages, and $10,000 for the condemned property. The state levied a special assessment of $2,250 against your retained property and withheld the $2,250 from the award it paid you. Your $600 expense of obtaining the award applies to the entire

$12,000; therefore, you must apply it proportionately to reduce the severance damages and the condemnation award. Your realized gain is $4,800, figured as follows:

	Severance damages	Condemnation proceeds
Severance damages	$2,000	
Condemnation award		$10,000
Less: Legal and appraisal fees		
$600 × ($2,000/$12,000)	100	
$600 × ($10,000/$12,000)		500
Severance damages less expenses	$1,900	
Condemnation award less expenses		$ 9,500
Less: Special assessment, $2,250, offset:		
Against severance damages	1,900	
Balance against condemnation award		350
Net severance damages	$ -0-	
Net condemnation award		$ 9,150
Less:		
10 acres of land @ $200	$2,000	
Cost of storage sheds	3,000	
	$5,000	
Less: $400 depreciation and $250 casualty loss deductions	650	
Adjusted basis of property condemned		4,350
Gain realized on condemnation		$ 4,800

Example 6—Severance damages but no special assessment. You bought 640 acres of farmland for $1,280 ($2 an acre). You did not build any storage sheds. Of your $12,000 condemnation award, $2,000 was stipulated as severance damages and $10,000 for the condemned property. Your $600 expense of obtaining the award applies to the entire $12,000; therefore, you must apply it proportionately to reduce the severance damages and the condemnation award. You realize a gain of $640 from severance damages and a gain of $9,480 on the comdemnation award, figured as follows:

	Severance damages	Condemnation proceeds
Severance damages	$2,000	
Condemnation award		$10,000
Less: Legal and appraisal fees		
$600 × ($2,000/$12,000)	100	
$600 × ($10,000/$12,000)		500
Net severance damages	$1,900	
Net condemnation award		$ 9,500
Basis of retained property (630 acres (@ $2)	1,260	
Basis of condemned property (10 acres (@ $2)		20
Gain realized from severance damages	$ 640	
Gain realized on condemnation		$ 9,480

Postponement of Gain

You do not report the gain on your property disposed of under condemnation or threat or imminence of condemnation if you receive property that is similar or related in service or use to it. Your basis for the new property is the same as your basis for the condemned property.

You must ordinarily report the gain on your property disposed of under condemnation or threat or imminence of condemnation if you receive dissimilar property or money for your property. You can choose to postpone reporting the gain if you acquire replacement property or the controlling interest in a corporation owning property that is similar or related in service or use to your condemned property within a specified replacement period. To postpone all of the gain, the cost of your replacement property must be equal to or more than the net condemnation award for your property.

If you are a member of a partnership or a shareholder in a corporation that owns the condemned property, only the partnership or corporation, and not you, can choose to postpone reporting the gain.

Replacement property. You must buy replacement property for the specific purpose of replacing your involuntarily converted property. You do not have to use the same proceeds from your old property to acquire the replacement property. Property or stock you acquire by gift or inheritance does not qualify as replacement property.

Your replacement property must be similar or related in service or use to the property it replaces. If the condemning authority acquired your real estate that you used in your business or for rental or investment purposes, see *Special rule for certain real estate*.

Advance payment. If you pay a contractor in advance to build your replacement property you will not be considered as having purchased replacement property unless the building of the replacement property is finished before the end of the replaccement period.

Executory contract. You are not considered to have bought replacement property if you have an executory contract to buy it. You are considered to have bought the property only when you receive the deed or the benefits and burdens of ownership, whichever occurs first.

Similar or related in service or use. The meaning of similar or related in service or use depends on whether you are an owner-user or an owner-investor.

If you are an ***owner-user,*** similar or related in service or use means that replacement property must function the same as the property it replaces. This is called the functional use test. An example of replacement property that is similar or related in service is the replacing of a business vehicle for another business vehicle that performs the same function.

Example. Your residence is condemned for public use by local authorities. Your condemnation award resulted in a gain. To postpone reporting the gain you must replace your residence with another residence of which the cost is equal to or more than the net proceeds from your condemned property. If you replace your residence with an apartment house to be held for rental income, you cannot elect to postpone reporting the gain because your replacement property is not similar or related in service or use.

If you are an ***owner-investor,*** similar or related in service or use means that any replacement property must have the same relationship of services or uses to you as the property it replaced. You do this by determining:

1) Whether the properties are of similar service to you;
2) The nature of the business risks connected with the properties; and
3) What the properties demand of you in the way of management, service, and relations to your tenants.

Example. You owned land and a building that you rented to a manufacturing company. The building was condemned and, during the replacement period, you constructed a new building on other land already owned and rented it out for use as a wholesale grocery warehouse. Because the replacement property is also rental property, the two properties will be considered similar or related in service or use if there is a similarity in your management activities, the amount and kind of services that you render to your tenants, and the nature of your business risks connected with the properties.

Controlling interest in a corporation. You can acquire replacement property by acquiring a controlling interest in a corporation that owns property that is similar or related in service or use to your condemned property. You can postpone the tax on your entire gain from condemnation if the cost of the controlling interest is equal to or more than the net condemnation award. You have controlling interest if you buy stock having at least 80% of the combined voting power of all classes of voting stock and at least 80% of the total number of shares of all other classes of stock.

Example. You owned property you used in your business that had an adjusted basis of $175,000. It was condemned by the state, and you received $200,000 as a condemnation award for the property. You were not able to find suitable property to replace the property condemned. You bought for $200,000 a controlling interest (over 80% of the stock) in a corporation that owns property similar or related in service or use to your property that was condemned. If you purchased the stock within the replacement period and meet the tests of control, you may choose to postpone tax on the $25,000 gain you realized on the condemnation.

The basis of the replacement property is its cost less any gain not recognized. In this way, tax on the gain is deferred until you dispose of the replacement property. If the replacement property costs less than the net condemnation award you received, you must include the gain in income to the extent of the difference.

If your replacement property is composed of more than one part, you must treat the property as one unit when you reduce its basis by the unrecognized gain. You must allocate the remainder of the basis to the parts in proportion to their respective costs.

Example 1. Your residential property was condemned by the state, and it awarded you

$36,000 for the property that has a basis of $26,000. You realized a gain of $10,000 from the condemnation. If you buy another residence for $36,000 within the specified time, you may choose to postpone tax on the gain because you will have reinvested your entire gain in your new home. Your basis for the new home will be $26,000 ($36,000 cost less $10,000 gain not recognized).

Example 2. If, in the previous example, you paid only $32,000 for the new residence within the replacement period, you are required to report in your income only $4,000, the part of the gain not invested in your new residence. If you bought a new residence for $25,000, you must report the entire gain of $10,000 because the part of the net condemnation award you did not spend would be more than your gain.

Example 3. You owned unimproved land that you held for investment. Your land was condemned, and you received a condemnation award of $300,000. Your basis in the land was $60,000; therefore, you have a realized gain of $240,000 ($300,000 − $60,000). You do not have to recognize the gain because you choose to postpone reporting the gain.

Within the replacement period you buy improved real estate to be held for investment. Its cost is $600,000. You allocate $400,000 (two-thirds) of the cost to land and $200,000 (one-third) of the cost to improvements. You choose to treat only the land as replacement property.

You figure the basis of the land to be $240,000 ($400,000 − (⅔ × $240,000 unrecognized gain)). You figure the basis of the improvements to be $120,000 ($200,000 − (⅓ × $240,000 unrecognized gain)).

Special rule for certain real estate. A special rule applies to the replacement of real property that is used in your trade or business or held for the production of income or for investment, and that was disposed of by condemnation or sale under threat of condemnation. This special rule does not apply to stock in trade, property held primarily for sale, or to the acquisition of a controlling interest in a corporation.

You may postpone reporting your gain on the condemnation of your real property if within the replacement period you replace it with like kind property that will be used in your trade or business or held for the production of income or for investment. If you do not replace the condemned property with like kind property, you may still postpone reporting the gain by replacing it with property that is similar or related in service or use.

Outdoor advertising displays. You may make an irrevocable election to treat qualifying outdoor advertising displays as real property if you do not claim investment credit or additional first year depreciation on the display. An outdoor advertising display is a sign, display, or device that is rigidly assembled and permanently attached to the ground, a building, or any other inherently permanent structure constituting, or used for the display of, a commercial or other advertisement to the public.

Like-kind property generally means real property. It does not matter if the condemned property or your replacement property is improved or unimproved. Although land and improvements are called real estate they are not like-kind property.

The following qualify as like-kind property if they are held for use in business or for the production of income:

1) Easements;
2) Rights-of-ways;
3) Leaseholds for a term of 30 years or more (the term includes the initial term of the lease and all optional renewal periods);
4) Perpetual water rights, if they are considered real property rights under applicable state law; and
5) Any similar continuing interests in real property.

Example 1. You planned to build warehouses for your business on your unimproved property. The unimproved property was condemned before you built the warehouses. You bought improved real property that had a garage, a service station, and salesrooms on it. You could rent out these buildings. The improved real estate qualifies as replacement property because it is held for the production of income and is of a like kind.

Example 2. Assume that in Example 1 you used the amount you received from the condemnation to buy a controlling interest in a corporation that owns property that has a garage, a service station, and salesrooms on it. Your purchase of the controlling interest does not qualify as replacement property because stock is not like kind property to unimproved property nor is the new property similar or related in service or use to your unimproved property.

Example 3. The state condemned your land that has a warehouse on it. You used the warehouse for rental purposes. You built a gas station on other land that you already owned and rented the station to an oil company. The gas station does not qualify as like kind property because a building is not the same kind of property as land with a building on it. However, the gas station qualifies as replacement property because both properties were held for the production of rental income and, therefore, are similar or related in service or use.

Example 4. You owned two separate tracts of unimproved land. One tract was condemned, and you invested the proceeds of the condemnation in the installation of storm drains, water systems, and roads on the remaining tract of rural land. The investment in the storm drains, water systems, and roads on land you already owned does not qualify as a like kind replacement because improvements are not the same kind of property as unimproved land.

Example 5. The state condemned part of your land that had your manufacturing plant on it. The condemned part was used as storage area for your products and had a garage that housed your delivery trucks. You received an award for only the condemned property.

Because it cost too much to acquire land suitable for storage in this area, you used part of your condemnation award to rearrange the layout of your plant facilities on the remainder of your land to create a new storage area. You used the rest of the award to build a new garage to house the delivery trucks on a small plot of land you owned nearby.

Your restoration of the plant site so it could be used in the same manner as it was used before the condemnation and the new garage qualify as replacement property because they are similar or related in service or use.

Example 6. If you use money you received from the condemnation of a residence that you rent out to buy a new residence for personal use, the new home does not qualify as replacement property. The new residence is not held either for productive use in a trade or business or for investment purposes.

Replacement period. To postpone reporting your gain from property disposed of under condemnation or threat or imminence of condemnation, you must buy replacement property within the replacement period.

The replacement period begins. If you choose to postpone reporting your gain, your replacement period begins on the earlier of the following dates: The date of the disposition of the converted property, or the date of the beginning of threat or imminence of condemnation.

The replacement period ends. For the condemnation of your personal property or of your real property held for personal use, your replacement period ends 2 years after the close of the first year in which any part of your gain on the conversion is realized.

For the condemnation of your real property held for use in a trade or business or for investment, not including property held primarily for sale, disposed of as the result of condemnation or threat or imminence of condemnation, your replacement period ends 3 years after the close of the first tax year in which any part of your gain from the conversion is realized. If condemnation proceedings began before October 4, 1976, the replacement period ends 2 years after the close of the first tax year in which any part of the gain is realized.

Example 1. You are a calendar-year taxpayer. You were notified by the city council on December 1, 1980, of its intention to acquire your real property used in your business by negotiation or by condemnation. On June 1, 1981, when the property had an adjusted basis of $40,000 to you, the city converted the property to its use and paid you $50,000. The replacement period started on December 1, 1980, the date you were notified of the intention to condemn the property. Because

you did not dispose of the property until 1981, the replacement period ends on December 31, 1984, 3 years after the last day of the year in which the gain was realized.

Example 2. On March 1, 1976, you were notified by the state of its intention to acquire your investment real property by negotiation, or condemnation if necessary. On May 1, 1977, the state paid you for the property as a result of a negotiated settlement between you and the state. No condemnation proceedings were ever started by the state. Therefore, you are entitled to a 3 year replacement period which would end on December 31, 1980.

Example 3. You and the state could not negotiate a settlement. The state filed a condemnation suit on September 15, 1976, to acquire your property. The suit was settled in court May 1, 1978, and you received full payment for your property on May 15, 1978. Since the condemnation proceeding began before October 4, 1976, you are only entitled to a 2 year replacement period. Your replacement period would end on December 31, 1980.

Replacement property acquired before the involuntary conversion. If you acquire your replacement property after there is a threat or imminence of condemnation, but before the involuntary conversion and still hold the replacement property at the time of the involuntary conversion, you acquired your replacement property within the replacement period. Property you acquire before there is a threat or imminence of condemnation does not qualify as replacement property acquired within the replacement period. If the property replaced is your residence, see *Personal residence*, discussed later.

Example 1. On April 1, 1978, you were notified by the city authorities that your property would be condemned. On June 1, 1978, you acquired property to replace the property to be condemned. You still had the new property when the city took possession of your old property on September 1, 1979. You made a replacement within the required replacement period.

Example 2. You acquired new property on March 14, 1980. On April 3, 1980, you were notified by the city authorities that your old property would be condemned. You still hold the new property when the city takes possession of your old property on September 5, 1981. The new property you acquired on March 14, 1980, does not qualify as replacement property acquired within the replacement period because you bought it before you were notified of the condemnation.

Requesting extension. You may get an extension of the replacement period if you apply to the Internal Revenue office or Service Center where you filed the tax return containing your election. You should make the application before the end of the replacement period. Your application should contain all the details about the need for the extension. You may file an application within a reasonable time after the replacement period ends if you can show reasonable cause for the delay. Extension of time will be granted if you can show reasonable cause for not making the replacement within the regular period.

Ordinarily, requests for extensions are not made or granted until near the end of the replacement period, or the extended replacement period. Extensions are usually limited to a period not more than one year. The high market value or scarcity of replacement property is not sufficient for granting an extension. If your replacement property is being constructed and you clearly show that the replacement or restoration cannot be made within the replacement period, you will be granted an extension of the period.

Personal residence. You can never deduct a loss on your personal residence from condemnation, or from the sale or exchange under threat or imminence of condemnation. You may choose to treat gain on the condemnation of your principal residence in either of two ways: as an involuntary conversion, or as a voluntary sale.

If you are ***55 or older*** and realize a gain from the condemnation of your residence, you can choose to omit all or part of the gain from income if you meet the ownership and use requirements. See Publication 523, *Tax Information on Selling Your Home*, for the ownership and use requirements of this election and to determine the amount of the gain to omit. If you make this election and can omit part of your gain, you may choose to postpone recognition of the remainder of the gain under either of the elections discussed later.

You may choose to treat the gain as if it was from an involuntary conversion, discussed earlier, or you may elect to treat it as a gain from a voluntary sale or exchange. If you elect to treat the conversion as a voluntary sale or exchange, you must attach a statement to your return for the year in which you dispose of your residence. This election cannot be revoked. The statement should indicate that you are electing to treat the disposition of your old residence as a sale or exchange rather than as an involuntary conversion, and it should contain the following information:

1) Basis of your old residence;
2) Date of disposition;
3) Adjusted sale price of old residence or net condemnation award received; and
4) Purchase price, purchase date, and date of occupancy of your new residence if you occupied it before or at the time you made the election.

If you elect to treat the conversion of your residence as a voluntary sale, gain from this conversion will be deferred only if the converted residence and the replacement residence qualify as your principal residence.

To postpone reporting your gain under either treatment, you must replace your old residence with a new residence within a specified period of time before or after its disposition. For information regarding the manner of postponing tax on the gain from a voluntary sale or exchange of your residence, see Publication 523.

The following examples show the difference between the replacement period for an involuntary conversion and a voluntary sale or exchange.

Example 1. You use the calendar year for filing your tax return. On September 17, 1979, under threat of condemnation, you sold your principal residence at a gain. If you want to postpone recognition of the gain, you must acquire another residence as replacement property. To postpone reporting the gain under the involuntary conversion election, you must purchase the replacement residence within 2 years after the end of the tax year in which you realized gain on your residence.

Example 2. If, in the previous example, you wish to elect to treat your sale as a voluntary sale or exchange, you must purchase and occupy the replacement residence as a principal residence within 18 months of the date of sale of your old residence. If you build, rather than buy, the replacement residence, you must begin construction within 18 months of the sale of the old residence, and you must complete and occupy it as your principal residence not later than 2 years after selling the old residence.

Example 3. You purchase a new residence in January 1980 with the intention of selling the home in which you live. You are still living in your old residence in June when you are notified that it has been condemned for use in connection with a new highway project. If you realize a gain on that condemnation, you cannot postpone the recognition of the gain by treating your new residence as replacement property under the involuntary conversion election because the replacement residence was acquired before you received notice of the condemnation proceedings. However, you may elect to treat the condemnation as a voluntary sale because the replacement period for it includes the 18-month period before the sale. If you occupy the new residence as your principal residence within 18 months following the condemnation, you may defer recognition of gain under the rules discussed in Publication 523.

How to make the election. You should report your election to postpone your gain from an involuntary conversion along with all the details of the involuntary conversion on the return for the tax year you realize the gain.

Replacement property acquired before return filed. If you acquire replacement property before you file your return for the year gain is realized, you must attach a statement to your return. The statement should show the amount realized from the condemnation, your computation of the gain, and any gain to be reported.

If the taxpayer dies in the year the gain is realized and before replacement property can be acquired, no election to postpone tax on the gain may be made on the decedent's final return, even if replacement property is acquired within the replacement period.

Replacement property acquired after return filed. If you elect to postpone reporting your gain from the condemnation and intend to purchase replacement property after you file your return for the year in which the gain is realized, you must attach a statement to your return. The statement should show all the facts relating to the condemnation, your computation of the gain, and state that you elect to replace the property within the required replacement period.

You should attach another statement to your return for the year in which you acquire replacement property. The statement should contain detailed information on the replacement property. If you acquire part of your replacement property before your return is filed and the balance after you file it, you must also make this statement. The statement should contain detailed information on the balance of the replacement property.

You must file an amended return for the tax year you made the election if either you did not acquire replacement property within the required replacement period, or you acquired replacement property within the required replacement period but at a cost less than the proceeds.

If a taxpayer dies before acquiring replacement property, the gain from a condemnation may not be postponed by the acquisition of replacement property by the executor of the estate or any person succeeding to the funds from the condemnation. The gain must be reported for the year in which the decedent realized it.

Changing the election. You may change your election at any time before the end of the replacement period.

Example. Your property was condemned and you realized a gain of $5,000. You reported the gain on your return for the year the gain was realized. You buy replacement property within the replacement period. You used all but $1,000 of your gain to buy the replacement property. You wish to change your election to postpone the tax on the $4,000 of gain spent for the replacement property. You should file a claim for refund by filing an amended return Form 1040X, *Amended U.S. Individual Income Tax Return.* You should attach an explanation to your Form 1040X showing that you previously reported the entire gain from the condemnation but you now want to change your election and report part of the gain not spent for replacement property.

How to Report Gains and Losses

The way in which you include a taxable gain or deductible loss from a condemnation or the sale or exchange under threat or imminence of condemnation in computing your income depends on the kind of property involved, how long you held it, and whether a part of your gain is attributable to depreciation.

Depreciable property. If you have a gain from the disposition of depreciable property, you may have to report all or part of your gain as ordinary income in Part III, Form 4797, *Supplemental Schedule of Gains and Losses.* You figure the amount of your gain to be reported as ordinary income, under special rules discussed in Publication 544, *Sales and Other Dispositions of Assets.*

After you have determined your ordinary income from disposition of depreciable property in Part III, Form 4797, the balance of the recognized gain from the disposition must be reported as indicated in the following discussions.

Property held one year or less. You treat the gain or loss from a condemnation or sale or exchange under threat or imminence of condemnation of property held for one year or less as ordinary income or loss or as short-term capital gain or loss.

Business and rental property. You treat a gain or loss from a condemnation or sale or exchange under threat or imminence of condemnation of property used in your business or held for the production of rents or royalties as ordinary gain or loss and report it in Part II, Form 4797.

Investment property. You report a gain or loss from a condemnation or the sale or exchange under threat or imminence of condemnation of property you held for investment as short-term capital gain or loss in Part I, Schedule D (Form 1040).

Inventory. You report a gain or loss from a condemnation or the sale or exchange under threat or imminence of condemnation of inventory or property you held primarily for sale to customers in the ordinary course of business as business income or loss. You never report it on Schedule D (Form 1040) or Form 4797. You report the gain or loss on this property in the appropriate business schedule, either Schedule C (Form 1040) or Schedule F (Form 1040), regardless of the type of transaction or the length of time you held the property.

Property held for personal use. You report the gain from a condemnation or the sale or exchange under threat or imminence of condemnation of property you held for personal use as short-term capital gain in Part I, Schedule D. You never deduct a loss from a condemnation of property or from the sale or exchange of your property under threat or imminence of condemnation.

Property held over one year. If you held property for more than one year before it was condemned or sold under a threat or imminence of condemnation, you must list the gain or loss, in Part I, Form 4797, along with any other gains and losses on other section 1231 transactions. You may not deduct a loss on property that you held for personal use and that was condemned or sold under threat or imminence of condemnation, so do not list it.

Section 1231 property. Property you used in a trade or business or held for the production of rents or royalties and held more than one year, and any other property including capital assets you held more than one year that is subject to an involuntary conversion, is known as section 1231 property. In a disposition of depreciable property, you first figure ordinary gain attributable to depreciation, in Part III, Form 4797. You include any remaining gain in the section 1231 computation.

You combine all section 1231 gains and losses in Part I, Form 4797. This includes your gains or deductible losses on condemnations or sales or exchanges under threat or imminence of condemnation of your property.

If your section 1231 gains are more than your section 1231 losses, then you must treat each item as a capital gain or loss. You then enter the net figure on line 5, Form 4797, and on line 14, Part II, Schedule D (Form 1040).

If your section 1231 losses are equal to or more than your section 1231 gains, you must treat each item as an ordinary gain or loss. You then enter the net figure on line 5 and line 6 of Form 4797. You may only deduct your section 1231 losses on property held for personal use on Schedule A (Form 1040) if you itemize your deductions.

Illustration of Form 4797. The following example with a filled-in Form 4797 illustrates how to report gains and losses from a condemnation or sale or exchange under threat or imminence of condemnation.

Example. Your only gains or losses for the year were from condemnation or sale or exchange under threat or imminence of condemnation. These are:

January 28

—Under threat of condemnation you sold land held for investment for $10,000. You bought this land on April 2, 1965, and it had an adjusted basis of $6,000 at the time of this sale. You do not choose to postpone reporting the gain. You report all the details of this sale in Part I, Form 4797.

February 15

—A building that you used in your business was condemned. Your condemnation award was $74,000. You bought the building on August 15, 1979, for $75,000. You claimed $750 of depreciation until the time of the condemnation. You report all the details of the condemnation in Part II, Form 4797.

March 12

—You sold your personal residence under threat of condemnation for $50,000. You purchased the residence on June 25, 1975, for $38,000. You do not choose to postpone reporting the gain. You report all the details of this sale in Part I, Form 4797.

October 1

—Your rental property was condemned. You received a condemnation award of $125,000. On September 25, 1979, you bought this property that was just built for

$100,000. You rented out this building only for residential housing. You claimed depreciation of $4,000 up to the time of the condemnation, using the double declining balance method. Your depreciation deduction includes additional depreciation of $2,000. You report all the details of the condemnation in Part III, Form 4797. In Part III you determine that $2,000 of your gain is ordinary income, and you enter it on line 7 of Part II, Form 4797. You enter the remainder of your gain on line 3 of Part I, Form 4797.

November 14

—You had a $4,000 loss on the condemnation of your summer beach cottage. You cannot deduct this loss because losses from a condemnation of property held for personal use are never deductible.

After reporting all the details of the transactions you combine the section 1231 gains in Part I, on line 5. Because your section 1231 gains are more than your section 1231 losses, you treat each item as a capital gain and enter the amount on line 14 of Schedule D (Form 1040). You combine your remaining gains and losses in Part II on line 11(b)(2) and you enter the amount from this line on line 16, Form 1040.

Form **4797**
Department of the Treasury
Internal Revenue Service

Supplemental Schedule of Gains and Losses

(Includes Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions)
To be filed with Form 1040, 1041, 1065, 1120, etc.—See Separate Instructions

1980

Name(s) as shown on return: JOHN GREEN

Identifying number as shown on page 1 of your tax return: 268-40-7513

Part I Sales or Exchanges of Property Used in a Trade or Business, and Involuntary Conversions From Other Than Casualty and Theft—Property Held More Than 1 Year (Except for Certain Livestock)

Note: *Use Form 4684 to report involuntary conversions from casualty and theft.*
Caution: *If you sold property on which you claimed the investment credit, you may be liable for recapture of that credit. See Form 4255 for additional information.*

a. Kind of property (if necessary, attach additional descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price minus expense of sale	e. Depreciation allowed (or allowable) since acquisition	f. Cost or other basis, plus improvements	g. LOSS (f minus d plus e)	h. GAIN (d plus e minus f)
1 LAND	4-2-65	1-28-80	10,000		6,000		4,000
PERSONAL RESIDENCE	6-25-65	3-12-80	50,000		38,000		12,000

2 Gain, if any, from Form 4684, Part II, line 25		
3 Gain, if any, from line 26, Part III, on back of this form attributable to other than casualty and theft		27,000
4 Add lines 1 through 3 in column g and column h		43,000
5 Combine line 4, column g and line 4, column h. Enter here, and on the appropriate line as follows:		43,000

(a) For all except partnership returns:
(1) If line 5 is a gain, enter the gain as a long-term capital gain on Schedule D (Form 1040, 1120, etc.) that is being filed. See instruction E.
(2) If line 5 is zero or a loss, enter that amount on line 6.
(b) For partnership returns: Enter the amount shown on line 5 above, on Schedule K (Form 1065), line 8.

Part II Ordinary Gains and Losses

a. Kind of property (if necessary, attach additional descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price minus expense of sale	e. Depreciation allowed (or allowable) since acquisition	f. Cost or other basis, plus improvements	g. LOSS (f minus d plus e)	h. GAIN (d plus e minus f)
6 Loss, if any, from line 5(a)(2)							
7 Gain, if any, from line 25, Part III on back of this form							2,000
8 Net gain or (loss) from Form 4684, lines 17 and 24a							
9 Other ordinary gains and losses (include property held 1 year or less):							
BUSINESS BUILDING	8-15-79	2-15-80	74,000	750	75,000	250	
10 Add lines 6 through 9 in column g and column h						250	2,000
11 Combine line 10, column g and line 10, column h. Enter here, and on the appropriate line as follows:							1,750

(a) For all except individual returns: Enter the gain or (loss) shown on line 11, on the line provided for on the return (Form 1120, etc.) being filed. See instruction F for specific line reference.
(b) For individual returns:
(1) If the loss on line 6 includes a loss from Form 4684, Part II, column B(ii), enter that part of the loss here and on line 29 of Schedule A (Form 1040). Identify as from "Form 4797, line 11(b)(1)"
(2) Redetermine the gain or (loss) on line 11, excluding the loss (if any) entered on line 11(b)(1). Enter here and on Form 1040, line 16 — 1,750

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1251, 1252, 1254, 1255

Skip lines 20 and 21 if there are no dispositions of farm property or farmland, or if this form is filed by a partnership.

12 Description of sections 1245, 1250, 1251, 1252, 1254, and 1255 property:	Date acquired (mo., day, yr.)	Date sold (mo., day, yr.)
(A) RENTAL BUILDING	9-25-79	10-1-80
(B)		
(C)		
(D)		

Relate lines 12(A) through 12(D) to these columns ▶ ▶ ▶	Property (A)	Property (B)	Property (C)	Property (D)
13 Gross sales price minus expense of sale	125,000			
14 Cost or other basis	100,000			
15 Depreciation (or depletion) allowed (or allowable)	4,000			
16 Adjusted basis, subtract line 15 from line 14	96,000			
17 Total gain, subtract line 16 from line 13	29,000			
18 If section 1245 property:				
(a) Depreciation allowed (or allowable) after applicable date (see instructions)				
(b) Enter smaller of line 17 or 18(a)				
19 If section 1250 property:				
(a) Additional depreciation after 12/31/75 (see instructions)	2,000			
(b) Applicable percentage times the smaller of line 17 or line 19(a) (see instruction G.4)	2,000			
(c) Subtract line 19(a) from line 17. (If line 17 is not more than line 19(a), skip lines 19(d) through 19(h). Enter the amount from line 19(b) on line 19(i).)	27,000			
(d) Additional depreciation after 12/31/69 and before 1/1/76	-0-			
(e) Applicable percentage times the smaller of line 19(c) or 19(d) (see instruction G.4)	-0-			
(f) Subtract line 19(d) from line 19(c). (If line 19(c) is not more than line 19(d), skip lines 19(g) and 19(h). Combine the amounts on lines 19(b) and 19(e) on line 19(i).)	27,000			
(g) Additional depreciation after 12/31/63 and before 1/1/70	-0-			
(h) Applicable percentage times the smaller of line 19(f) or 19(g) (see instruction G.4)	-0-			
(i) Add lines 19(b), 19(e), and 19(h)	2,000			
20 If section 1251 property:				
(a) If farmland, enter soil, water, and land clearing expenses for current year and the four preceding years				
(b) If farm property other than land, subtract line 18(b) from line 17; if farmland, enter smaller of line 17 or 20(a) (see instruction G.5)				
(c) Excess deductions account (see instruction G.5)				
(d) Enter smaller of line 20(b) or 20(c)				
21 If section 1252 property:				
(a) Soil, water, and land clearing expenses made after 12/31/69				
(b) Amount from line 20(d), if none enter a zero				
(c) Subtract line 21(b) from line 21(a). (If line 21(b) is more than line 21(a), enter zero.)				
(d) Line 21(c) times applicable percentage (see instruction G.5)				
(e) Subtract line 21(b) from line 17				
(f) Enter smaller of line 21(d) or 21(e)				
22 If section 1254 property:				
(a) Intangible drilling and development costs deducted after 12/31/75 (see instruction G.6)				
(b) Enter smaller of line 17 or 22(a)				
23 If section 1255 property:				
(a) Applicable percentage of payments excluded from income under section 126 (see instruction G.7)				
(b) Enter the smaller of line 17 or 23(a)				

Summary of Part III Gains (Complete Property columns (A) through (D) through line 23(b) before going to line 24)

24 Total gains for all properties (add columns (A) through (D), line 17)	29,000
25 Add columns (A) through (D), lines 18(b), 19(i), 20(d), 21(f), 22(b) and 23(b). Enter here and on Part II, line 7	2,000
26 Subtract line 25 from line 24. Enter the portion attributable to casualty and theft on Form 4684, line 19; enter the portion attributable to other than casualty and theft on Form 4797, Part I, line 3	27,000